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Viewing cable 10BUENOSAIRE55, Argentina: Economy Minister Says Debt Swap On Track

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Reference ID	Created	Released	Classification	Origin
10BUENOSAIRE55	2010-01-28 20:26	2011-08-30 01:44	CONFIDENTIAL	Embassy Buenos Aires

Appears in these articles:

<http://www.lanacion.com.ar/1357832-boudou-reconocio-problemas-en-el-indec>

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SUBJECT: Argentina: Economy Minister Says Debt Swap On Track

REF: BUENOS AIRES 25

CLASSIFIED BY: Martinez, Vilma, Ambassador; REASON: 1.4(B), (D)

Summary

¶1. (C) In a January 26 meeting with the Ambassador and DCM, Economy Minister Amado Boudou emphasized the positive despite the many challenges he faces. Confident and composed despite the late hour of the meeting and the severe political pressure he has faced in the past month, Boudou insisted that the GOA's plans to reengage international markets are moving ahead, and that the plan to use Central Bank reserves to guarantee 2010 debt service payments (the controversial Fondo Bicentenario) would be implemented. Frustrated with the imbroglio surrounding the leadership of the Central Bank, Boudou said that the situation "would be resolved this week." While claiming that the proposed debt restructuring would move ahead, Boudou asked that the Embassy convey to the U.S. Securities and Exchange Commission (SEC) the importance of speed and flexibility in its review of the GOA's submissions for regulatory approval of the debt swap. Boudou agreed to work with the Embassy to manage the GOA reaction to the upcoming publication of the Investment Climate Statement, which might contain language critical of aspects of Argentina's investment climate. Finally, on ICSID, Boudou was non-committal, listening approvingly to the DCM's discussion of the importance of the GOA's efforts to reach an agreement with Azurix, but without pledging to move ahead on other

ICSID cases. End Summary.

Boudou to Redrado: ""You're Fired""

12. (C) On the issue of the leadership of the Central Bank (BCRA), Boudou expressed frustration that the situation has dragged on for so long, lamenting that ""we've wasted the whole month on this."" He vowed that the saga would end soon and that the status of (former) BCRA President Martin Redrado will ""be resolved this week."" Saying that Redrado no longer has the luxury of resigning, Boudou stated emphatically that ""we're firing him."" He emphasized that the GOA now considers former BCRA Vice President Pesce to be the head of the Bank. Boudou backed away from his comments earlier this month that Mario Blejer would succeed Redrado as BCRA head. He said that he met with him two weeks ago, but Blejer, an experienced and respected economic figure (and former BCRA head), is wary of being involved in this controversial and unpredictable situation.

Holdout Proposal

13. (C) Boudou argued that the controversy regarding the BCRA is unrelated to progress on the proposed debt restructuring proposal,

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which the GOA is now working hard to get through the international

regulatory approval process. Quick SEC approval is vital, he said, since regulatory agencies in Italy and Germany will only act after the SEC issues its findings with regard to the debt swap. The SEC is working along three separate tracks, reviewing current economic developments in Argentina, examining the technical aspects of the proposed agreement, and developing a set of "warnings" to potential investors regarding the risks (as is usual practice in developing the prospectus for a securities issuance). Boudou explained that the SEC has asked for clarifications from the GOA in several areas and that the GOA has done its best to respond as fully as possible. However, he noted that the SEC needs to understand that the GOA is not in a position to deal with controversial aspects of its economic policies, such as the problems associated with the government's statistics agency, INDEC. Doing so would exact a huge political price from the GOA, given the local media's aggressive campaigns against the government. Boudou acknowledged the problematic nature of some GOA policies, but he opined that the SEC should respond expeditiously and show some understanding of the government's difficult political position so that the debt swap could advance. He also noted that bondholders who are the GOA's intended partners in this deal know Argentina's economic situation well and don't need the SEC to spell it out for them. In response, the Ambassador and DCM pointed out that the SEC is an autonomous regulatory agency which works independently of the executive branch. Boudou indicated that he understood that they could not do anything beyond passing along the substance of his remarks.

Paris Club, ICSID

14. (C) Despite the controversy surrounding the creation of the Bicentennial Fund to use BCRA reserves to guarantee the payment of debt service due in 2010, Boudou said that the GOA would proceed with establishing the fund. In addition, he also noted that the

government intends to normalize relations with the Paris Club, but would not move seriously on that until after a debt swap deal with the bondholder holdouts is completed. On the issue of ICSID judgments and the Azurix case in particular, the DCM explained that the U.S. is encouraged by Argentina's engaging in negotiations to reach an agreement with Azurix, and stressed the importance of finalizing the deal so that Azurix would drop its petition to remove GSP preferences from Argentine exports. He added that the GOA should build on this to address other ICSID cases as well. Boudou listened attentively, but did not give a substantive response on the issue.

Spending is Good for the Economy

15. (C) The Ambassador asked Boudou about the concerns of private economic analysts regarding the increasing rate of government expenditure growth, and noted the potential negative impact this

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could have on inflation. Boudou responded by noting the long-term success of the GOA's economic policies and defended the counter-cyclical spending policies as necessary to promote economic growth, adding half-jokingly that "we're just following your example." He said that the government would continue to spend on public investment and employment, and added that it would intelligently use the reserves in the Bicentennial Fund for the benefit of the Argentine people.

16. (C) The Ambassador noted that the Investment Climate Statement (ICS) would be issued in the coming weeks, and hoped that the Embassy and the GOA would work together to minimize any negative reactions from the government that could complicate the bilateral relationship. Boudou noted that the Argentine press has a tendency to exaggerate and sometimes forces the government to respond more harshly to perceived slights than warranted. However, he agreed that the GOA and the Embassy should work together to prepare for the release of the document and contain any negative fallout.

Comment

17. (C) Boudou has been under tremendous political pressure this past month, since the imbroglio over the Bicentennial Fund and the leadership of the BCRA began. Press rumors are rampant that his position as Economy Minister is imperiled by the Kirchners' dissatisfaction over his handling of the Redrado affair. But Boudou did not behave like a man whose career is hanging by a thread. The meeting occurred in the evening after being delayed several times due to Boudou's appearance before the Congressional committee investigating the Redrado situation. He was then convoked to the President's office. Despite the lateness of the hour and his marathon grilling before the committee (and perhaps in the Casa Rosada as well), Boudou was fresh, enthusiastic, calm, and totally composed during the meeting. He appears committed to completing the debt swap and then moving forward on dealing with the Paris Club debt. Whether he gets the chance to see these things through depends ultimately on his future standing with CFK

and her husband. As the sacking January 27 of Osvaldo Guglielmino, the Attorney General in the Treasury suggests, the standing of senior government officials in the eyes of the Kirchners, always tenuous even in the best of times, can change very quickly in the current environment.

MARTINEZ

=====CABLE ENDS=====